

## Budget Brief – Risk Management (ISF)

NUMBER CFAS-05-20

### SUMMARY

The Division of Risk Management was organized in 1980 to implement a self-insurance program for the state. The division provides liability, property, and auto coverage to all state agencies, all forty school districts, all state-owned colleges and universities, and charter schools. The liability insurance program is entirely self-funded, while the property insurance program is self-funded up to a \$2.5 million deductible with a private carrier.

The division has four internal sections: Claims, Loss Control, Workers' Compensation, and Support Staff.

1. The Claims section processes losses by state agencies and handles claims against state agencies, school districts, and other insured agencies.
2. The Loss Control group presents training, makes annual inspections, suggests corrective actions, assists with all types of safety problems, monitors disposal of hazardous materials, reviews blueprints, and other tasks as needed to reduce the state's risk exposure.
3. The Workers' Compensation section provides training and assistance for issues relating to workers' compensation and the Americans with Disabilities Act.
4. Support staff provide necessary functions to sustain division operations, such as administrative, financial, and data processing. They also manage property valuation and premium computation databases.

### ISSUES AND RECOMMENDATIONS

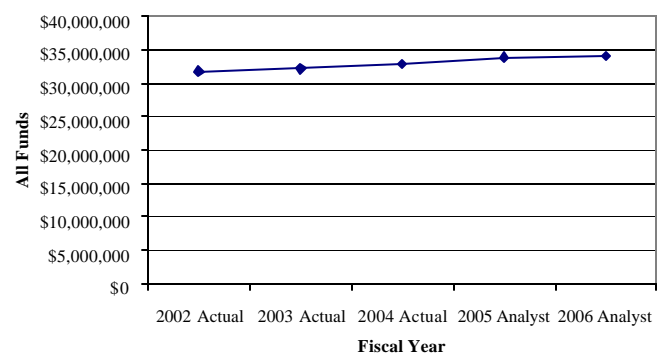
#### *Rate Changes*

The Analyst recommends the Legislature adopt the rate changes approved by the ISF Rate Committee for Risk Management. Please see Issue Brief CFAS-05-14 for more information on each rate change.

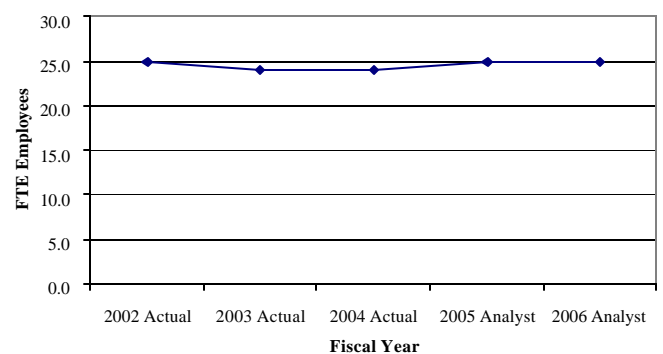
#### *Retained Earnings*

From time to time the Legislature has appropriated retained earnings from this division for statewide purposes. In FY 2004, for example, the Legislature appropriated \$3 million to replace the state's financial accounting system (FINET). Estimated retained earnings in FY 2005 are \$7,427,200. Please see "Accountability Detail" on the following page for a five-year review of retained earnings.

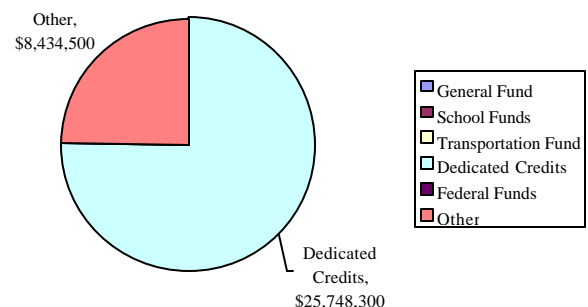
**Figure 1: ISF - Administrative Services - ISF - Risk Management - Budget History**



**Figure 2: ISF - Administrative Services - ISF - Risk Management - FTE History**



**Figure 3: ISF - Administrative Services - ISF - Risk Management - FY 2006 Funding Mix**



**ACCOUNTABILITY DETAIL*****Five Year History of Retained Earnings***

Risk Management Retained Earnings					
	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005 Est
Administration	4,026,000	2,678,000	5,689,800	8,427,200	7,427,200
Workers' Comp	3,871,500	1,721,300	1,139,500	611,500	365,300
Total	7,897,500	4,399,300	6,829,300	9,038,700	7,792,500

In FY 2004 the Legislature appropriated \$3 million from the Administration Program's retained earnings to replace the FINET system.

Since FY 2001 the Workers' Compensation program has intentionally kept premiums low in order to reduce retained earnings. Now that retained earnings have been reduced, some fee increases will be needed in order to partially offset the increased premiums expected to be charged by the Utah Workers' Compensation Fund in FY 2006 and beyond. This issue is not connected to the \$3 million in retained earnings appropriated for FINET.

**BUDGET DETAIL**

Restricted revenues represent interest earnings in the Administration Program, estimated at \$1 million in FY 2006, and the balance is premiums charged in the Workers' Compensation Program.

***Budget Recommendation for FY 2006:***

- Estimated revenues of \$34,182,800
- Rate changes as presented in Issue Brief CFAS-05-14
- 25.0 FTE
- Authorized Capital Outlay of \$100,000. Fund will be used, if needed, for a new claims database. The system is several years old and there are increasing problems for those outside state government getting in to see their reports. A final decision has not been made.

**LEGISLATIVE ACTION**

This section is a summary of what actions might be taken if the Legislature wishes to adopt the recommendations of this brief. The Analyst recommends the Legislature consider adopting:

1. Estimated revenues of \$34,182,800
2. Rate changes as presented in Issue Brief CFAS-05-14
3. 25.0 FTE
4. Authorized Capital Outlay of \$100,000

**BUDGET DETAIL TABLE**

ISF - Administrative Services - ISF - Risk Management						
Sources of Finance	FY 2004 Actual	FY 2005 Appropriated	Changes	FY 2005 Revised	Changes	FY 2006 Analyst*
Premiums	25,849,300	28,430,700	(2,560,300)	25,870,400	(122,100)	25,748,300
Interest Income	2,300	0	0	0	0	0
Restricted Revenue	7,001,900	8,517,600	(438,100)	8,079,500	355,000	8,434,500
<b>Total</b>	<b>\$32,853,500</b>	<b>\$36,948,300</b>	<b>(\$2,998,400)</b>	<b>\$33,949,900</b>	<b>\$232,900</b>	<b>\$34,182,800</b>
<b>Programs</b>						
ISF - Risk Management Admin	26,742,700	29,306,700	(2,436,300)	26,870,400	(122,100)	26,748,300
ISF - Workers' Compensation	6,110,800	7,641,600	(562,100)	7,079,500	355,000	7,434,500
<b>Total</b>	<b>\$32,853,500</b>	<b>\$36,948,300</b>	<b>(\$2,998,400)</b>	<b>\$33,949,900</b>	<b>\$232,900</b>	<b>\$34,182,800</b>
<b>Categories of Expenditure</b>						
Personal Services	1,747,000	1,782,400	143,200	1,925,600	1,000	1,926,600
In-State Travel	13,300	19,400	(3,200)	16,200	0	16,200
Out of State Travel	0	23,900	(23,900)	0	0	0
Current Expense	23,830,400	35,287,200	(3,195,600)	32,091,600	167,400	32,259,000
DP Current Expense	102,200	57,400	44,600	102,000	0	102,000
DP Capital Outlay	0	42,000	(42,000)	0	0	0
Other Charges/Pass Thru	1,570,100	90,000	(90,000)	0	0	0
Operating Transfers	3,355,000	0	1,000,000	1,000,000	(1,000,000)	0
Depreciation	26,100	0	60,700	60,700	23,500	84,200
<b>Total</b>	<b>\$30,644,100</b>	<b>\$37,302,300</b>	<b>(\$2,106,200)</b>	<b>\$35,196,100</b>	<b>(\$808,100)</b>	<b>\$34,388,000</b>
<b>Profit/(Loss)</b>	<b>\$2,209,400</b>	<b>(\$354,000)</b>	<b>(\$892,200)</b>	<b>(\$1,246,200)</b>	<b>\$1,041,000</b>	<b>(\$205,200)</b>
<b>Other Data</b>						
Total FTE	24.1	25.0	0.0	25.0	0.0	25.0
Authorized Capital Outlay	12,000	120,000	0	120,000	(20,000)	100,000
Retained Earnings	9,038,700	2,413,700	5,378,800	7,792,500	(205,200)	7,587,300
Vehicles	5	5	0	5	0	5

\*Does not include amounts in excess of subcommittee's state fund allocation that may be recommended by the Fiscal Analyst.